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C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 000444

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E.O. 12958: DECL: 02/24/2020  
TAGS: [EINV](#) [EIND](#) [CH](#)  
SUBJECT: HUMMER STUCK IN THE MUD

Classified By: Economic Minister Counselor William Weinstein for reasons 1.5 (b) and (d).

¶1. (C) Summary and comment: Hummer's Detroit-based government affairs representative Wei Shen told EconOff February 15 that the PRC had formally rejected Tengzhong's application to acquire the Hummer brand from General Motors (GM). While the details are unclear, Post understands that this was a formal rejection of Tengzhong's application under the PRC's "technology transfer" regulations. Shen told Emboffs February 11 that GM and Tengzhong had repackaged its application as a "foreign acquisition" and were preparing to submit it for approval. Nevertheless, Post believes PRC industrial and environmental policies and poor relations between Tengzhong and Sichuan Province officials make PRC approval of Tengzhong's application unlikely. GM was considering extending its end-of-February deadline for the sale, said Shen, while at the same time exploring other options. End summary and comment.

HITTING A RED LIGHT  
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¶2. (C) Hummer Vice President for Industry and Government Relations Wei Shen on February 15 informed EconOff that the Ministry of Commerce (MOFCOM) had issued a notification to the Sichuan Provincial Department of Commerce (SPDOC) denying Tengzhong's application to acquire Hummer. According to Shen, MOFCOM's decision was based on an "Opinion" issued by the National Development and Reform Commission (NDRC) that she had not seen. She said MOFCOM did not state a reason for the denial, but credited the decision to "industrial policy."

SPINNING ITS WHEELS  
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¶3. (C) Briefing Emboffs on February 11, Shen said GM and Tengzhong had been struggling with the PRC bureaucracy since the deal was first announced last year. According to Shen, GM and Tengzhong had originally decided to ask Sichuan provincial agencies to submit the purchase request on their behalf rather than apply directly to the central government. Despite the deal requiring only central government approval, Shen said, MOFCOM and NDRC "would not take the application seriously" if it was not submitted from -- and with the implicit support of -- the Sichuan provincial government.

¶4. (C) GM and Tengzhong officials initially approached SPDOC and the Sichuan Development and Reform Commission (SDRC), packaging the purchase as a "technology transfer" from the United States to China. NDRC, arguing that MOFCOM handles technology transfers, instructed SDRC not to get involved. MOFCOM determined Tengzhong "did not qualify" for the proposed technology transfer and "refused to accept" the application.

¶5. (C) According to Shen, the companies had since repackaged

the application as a "foreign acquisition" and were in the process of resubmitting it to SPDOC and SDRC. She said SPDOC's rules required the company to submit a feasibility study to determine whether the transaction could be classified as a foreign acquisition.

¶6. (C) Shen asserted that Sichuan's Provincial Party Secretary had not yet gotten involved in the Hummer case; however, he had been courting GM investment for some time. Shen implied the Party Secretary had been seeking some sort of quid pro quo from GM before agreeing to support the Hummer transaction. Shen predicted the Party Secretary's backing would convince MOFCOM to approve Tengzhong's application.

NOT MADE IN CHINA

¶7. (C) Shen said PRC officials at the central and provincial levels had cited multiple reasons for their unwillingness to grant Tengzhong approval to purchase Hummer. Foremost, while they recognized the deal would be good for the United States and good for Tengzhong, they failed to see "what's in it for China."

¶8. (C) Shen noted that many Chinese officials dismissed Hummer as "gas-guzzling junk," a cast off from an unsuccessful American venture inappropriate for China. The perception that America was "flexing its muscle" to push the sale of the Hummer brand was pervasive among PRC contacts. Shen confirmed that Tengzhong's near-term plan was to continue manufacturing in the United States, limiting the potential for job creation in, and related benefits to,

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China. To compound problems, as part of the PRC's broader industrial policy, the Ministry of Industry and Information Technology (MIIT) has called for auto industry consolidation and attempted to limit new market players.

¶9. (C) Shen added that Tengzhong had also faced trouble getting approval from the State Administration for Foreign Exchange (SAFE) to convert domestically-earned Renminbi into foreign currency for the purchase. She noted at the February 11 briefing that Tengzhong might be able to circumvent SAFE's approval for Renminbi conversion by utilizing other revenues held offshore. On February 15, however, Shen said MOFCOM indicated that it would "never" approve Tengzhong's application "even if it used offshore money."

HIDDEN ROADBLOCKS

¶10. (C) Beyond the PRC's expressed policy concerns, Shen believed other forces were at play. For example, a key MIIT Vice Minister had opposed the Hummer purchase because of his connections to Wuhan-based Dongfeng Motor Corporation, producer of a product similar to the Hummer line that would compete with a Tengzhong-owned Hummer. Shen also recounted a conversation in which an SPDOC official seemed to refer obliquely to a previous ill-fated dealing with Tengzhong. "There is some bad blood," said Shen, "but we're not sure what it is."

ATTRACTIVE FINANCING AVAILABLE

¶11. (C) Shen said that during GM's due diligence, the company had recognized Tengzhong was not a major player in the Chinese auto industry. GM ultimately decided to accept Tengzhong's offer because the company was able to prove it had the required cash and financing, which GM interpreted to mean that it also had the necessary Chinese government connections to succeed. "A private company with that kind of money is not a coincidence," Shen commented. She noted Tengzhong had shown its commitment to the \$150 million deal by providing "millions of dollars a month" to fund Hummer's

ongoing operations.

NO CASH FOR CLUNKERS

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¶12. (C) Shen claimed the Hummer deal had received "all necessary approvals" from the U.S. side, including from the Committee on Foreign Affairs in the United States (CFIUS). The GM-Tengzhong agreement gives the Chinese firm until the end of February to secure PRC approval, though Shen suspected that timeframe might be flexible. "It's not like there are other white knights out there for us," she confided.

¶13. (C) Shen admitted that GM had earlier looked at other possible Chinese buyers and had been approached by Beijing Auto Industry Holding Company (BAIC), which recently purchased Saab from GM (septel). She said GM recognized that selling Hummer to a well-connected national champion would likely speed the PRC approval process, but the company questioned whether BAIC had the necessary financing immediately available to close the deal.

¶14. (C) Comment: The PRC has from the beginning been reluctant to discuss with Post Tengzhong's potential purchase of Hummer. Wei's account was at times self-contradictory, causing us to question the accuracy of the details of her account. For example, on February 11, Wei indicated that MOFCOM had refused to accept Tengzhong's technology transfer application and that the foreign acquisition transfer had not yet been submitted, but on February 15 she said MOFCOM had formally rejected Tengzhong's application. Still, the PRC's actions lead us to believe that decision-makers are loathe to allow a company that has not been hand-picked as a national champion to acquire what is seen as a controversial U.S. brand. End comment.  
HUNTSMAN